Withdrawal of input tax credit may hurt realtors' margins

On Sunday, the government decided to more than halve the Goods & Services Tax (GST) rates for under-construction projects to 5% from 12%.

Mumbai | Bengaluru: The proposed reduction in Goods & Services Tax (GST) rate for under construction housing projects is expected to increase demand conversion. However, the withdrawal of input tax credit (ITC) is likely to impact the margins of realty developers.

For the past few years, housing prices have remained under pressure and builders have been looking to push sales with freebies and upfront discounts. With the current focus on volume growth, experts believe the pricing pressure is likely to continue. Given the adverse demand in most micromarkets, a few developers have so far fully absorbed the GST impact in the form of discounts.

"Though the GST framework considered the land share at one third of the cost, projects in city limits have land cost at 40-50% of the total cost. Therefore, the withdrawal of ITC would pinch developers in the affordable-housing segment the most, as the share of construction cost is high there," said to Rahul Prithiani, director, CRISILNSE 1.47 % Research.

On Sunday, the government decided to more than halve the Goods & Services Tax (GST) rates for under-construction projects to 5% from 12%. The GST Council removed the input tax credit, while GST on affordable housing was reduced to a marginal 1% along with expanding definition of such homes. Ready properties that have received occupancy certificate (OC) do not attract GST.

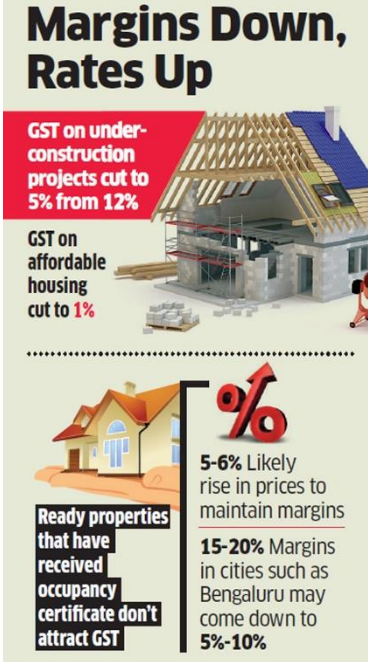
"The industry is already reeling under pressure and the recent withdrawal of the input credit will bring down the profit. It is not possible for builders to absorb the increasing cost of construction. This will only lead to increase in property prices," said Srinivasan Gopalan, CEO, Ozone Group.

Unavailability of ITC, they believe, would push construction cost upward, thereby forcing a price increase to avoid pressure on margins.

"This non availability of ITC would in economic terms mean an increase in the construction costs for developers. As a result, the developers in order to maintain margins would have no choice but to increase sale price by 5-6%. The market which had just recovered and seen healthy sales is expected to be subdued till the time the increase in prices are accepted by buyers in the market," said Sunil Pareek, CIO, Assetz Property Group.

According to him, residential segment that has a margin of around 15-20% in cities such as Bangalore would see margins falling to 5%-10% with non-availability of tax credits if the cost increase is not passed on.

Builders will have to recalibrate project pricing after the notification and those not passing on the benefit will have to bring it down by around 7%. On the other hand, realtors that were passing on the benefit will have to raise prices by 2-4% to maintain margins, which seems difficult in current market scenario, said CRISIL Research.



"Unavailability of input tax credit will further impact developers' profit margins that are already under pressure. The developers may have the option to mitigate this loss by increasing prices slightly given that overall pricing for the customer has reduced with lower GST," said Saranga Ranasinghe, assistance V-P, Moody's Investors Service.

Link: https://economictimes.indiatimes.com/industry/services/property-/-cstruction/withdrawal-of-input-tax-credit-may-hurt-realtors-margins/articleshow/68194007.cms?from=mdr